

VZCZCXRO5723
PP RUEHBC RUEHDA RUEHDE RUEHIHL RUEHKUK
DE RUEHGB #2489/01 2201555
ZNR UUUUU ZZH
P 071555Z AUG 08
FM AMEMBASSY BAGHDAD
TO RUEHC/SECSTATE WASHDC PRIORITY 8729
INFO RUCNRAQ/IRAQ COLLECTIVE PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY

UNCLAS SECTION 01 OF 02 BAGHDAD 002489

SBU
SIPDIS

E.O. 12958: N/A
TAGS: [EINV](#) [EFIN](#) [ETRD](#) [IZ](#)
SUBJECT: GOI LOAN PROGRAM FOR PRIVATE SECTOR GROWTH FACES
GROWING PAINS

SUMMARY

1. (SBU) The Ministry of Industry and Minerals, which manages over 60 of Iraq's state-owned enterprises, is struggling to administer its 408 million USD loan program, targeting existing small to medium-sized enterprises. Loan applications are generated on the provincial level, reviewed and approved in Baghdad, and returned to local branches of the Rasheed Bank, which then distributes the loans. Rasheed Bank has paid out very few of the loans MIMS has approved, however, and several problems exist with the program's application and distribution mechanisms. End Summary.

FROM SOES TO SMES: NEW ROLE FOR INDUSTRY MINISTRY

2. (U) The Ministry of Industry and Minerals (MIM), which manages over 60 of Iraq's state-owned enterprises (SOEs), administers a 408 million USD loan program, targeting existing small to medium-sized enterprises (SMEs). The loans are interest rate-free for the borrower, with MIM paying 4 percent interest to the state-owned Rasheed Bank, which disburses the loans. The loans feature a one-year grace period and four-year payback term. At its inception, the program offered 12,000 - 24,000 USD individual loans. However MIM has since raised the amount to 25,000 - 50,000 USD. MIM provides 40 million USD for SMEs in Baghdad, Ninewa, and Basra provinces and 24 million USD each for all other provinces, excluding those in the KRG, which are ineligible to participate in the program.

APPROVAL AND DISBURSEMENT PROCESS

3. (SBU) Loan applications are generated on the provincial level, reviewed and approved in Baghdad, and returned to local branches of the Rasheed Bank. MIM representatives in provincial capitals provide and receive loan applications. Once an applicant submits the request, MIM provincial representatives conduct due diligence on the businesses, then forward on the application and any supplemental information they collect to MIM in Baghdad. A technical study group then reviews the application for accuracy and cross-checks information in a MIM database of registered companies. The application then goes to a four person approval committee, consisting of representatives from the Iraqi Industrial Union, the legal and internal affairs departments of MIM, and the MIM Director General that oversees the program. Upon approval, the committee sends an order to the Rasheed Bank head office in Baghdad, which then instructs its local Rasheed branch of the approval. MIM also sends a copy of the approval directly to the applicant. Applicants must visit the local Rasheed branch to post collateral and designate a guarantor to co-sign for the loan. According to Rasheed Bank, the loans are funded from the liquidity of the bank and

are not subsidized by MIM (Note: MIM tells us the loans come directly from the Ministry of Finance. End Note).

LIMITED SUCCESS TO DATE

14. (SBU) Rasheed Bank has paid out very few of the loans MIM has approved. As of June 17, 5,421 loan applications have been submitted, with 3,190 approved and only 155 paid, totaling 1.6 million USD. Abbas Mhan, the MIM Director General for the loan program, blames Rasheed Bank's high collateral requirements for the lack of loans being paid. "Rasheed is much too strict," he stated. In Anbar, for example, MIM approved 239 projects out of 700, as of June. PRT Anbar business development advisers report they have not yet heard of a single loan disbursement in the province.

COMMENT

15. (SBU) The MIM loan program is symbolic in that it demonstrates the commitment of the ministry and the government to private sector growth and aims to fill a significant gap in the credit market. That said, the application and disbursement process betrays several deficiencies. For example, it remains unclear how effectively MIM determines an "existing business." At the same time, PRTs report that MIM business registries are often outdated and do not offer a realistic option for determining a business' viability. In addition, there appears to be no follow-up procedure to ensure the borrowers are using the capital for legitimate commercial purposes, and it is unclear

BAGHDAD 00002489 002 OF 002

about how Rasheed collects payments or handles defaults. On the loan's limited disbursement rate, the Rasheed Bank funds and services the loans, which has implications for its balance sheet. A possible way to mitigate this might be for MIM to buy the loans from the bank, thereby minimizing the bank's reluctance to extend these credits and hold them on the books. Absent a correction of these problems, the MIM loan program effectively constitutes a hard-to-acquire grant, reflecting the conflict between GOI intent to stimulate private sector growth and the state banks' inability to execute a subsidized lending program. End Comment.

CROCKER